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SUBJECT: NEW R&D LAW GIVES MORE INCENTIVES FOR PRIVATE
RESEARCH

¶1. (SBU) Summary: We met with Dr. Omer Anlagan, Vice President of the Scientific and Technological Research Council of Turkey (TUBITAK), to discuss the current state of research and development (R&D) in Turkey, and TUBITAK's expectations for the new R&D law, which passed on February ¶28. Turkey already encourages R&D by giving income and employment tax exemptions for small firms working in the country's "Technoparks," through research grants and loans provided by TUBITAK, and by giving research companies full intellectual property rights to the results of applied research they fund. The new law substantially increases TUBITAK's funding for research, and allows large research firms to obtain tax benefits with or without locating in a technopark. Anlagan said that foreign firms that establish a Turkish subsidiary would be able to benefit, although there will be a requirement to have a majority of Turkish employees. The combination of research grants and tax exemptions may be a powerful tool to attract applied research work to Turkey. However, without changes in the rigid work permit system for foreign workers, even these incentives may not be able to entice the high-tech companies the GOT hopes to attract. End Summary.

¶2. (U) Anlagan said TUBITAK distributes research funding on behalf of the Turkish government. In 2005, the Turkish government decided to increase its R&D spending in order to improve productivity and reduce the trade deficit. To do this, the government set a target of two percent of GDP (USD 424 billion) for R&D funding. The GOT hopes to exceed one percent of GDP in 2008, and reach the two percent mark by ¶2015.

¶3. (U) TUBITAK provides research grants to both academics and the private sector. The academic grants are limited to USD 300,000. In return, TUBITAK expects the grant recipients to publish academic papers on their research. Private sector recipients can receive grants of up to half of their R&D operating costs for applied research. In order to get these grants, the project must involve applied science and aim to increase productivity in business in Turkey. After the research is completed, the company retains all intellectual property rights, even if TUBITAK funded 50% of the research. TUBITAK sees this as a way to improve Turkish companies' efficiency, competitiveness, and to reduce the trade deficit.

4 (U) The GOT also provides tax incentives for companies who engage in R&D in one of several "technoparks" designated for R&D, usually located near universities. Companies working in these technoparks pay neither corporate income tax nor payroll taxes for employees. This led larger companies, who had existing research facilities outside of the technoparks, to lobby for the same benefits. Anlagan said that the new R&D law passed on February 28th extends these tax benefits to outside companies, provided that they have more than 50 employees in their R&D departments. Anlagan said that foreign companies that set up Turkish subsidiaries were

already eligible for TUBITAK research grants. Under the new law, foreign companies that set up Turkish subsidiary research companies can qualify for the tax exemptions. Anlagan noted, however, that the law will require that 60% of the employees be Turkish nationals.

¶5. (SBU) Comment: The combination of generous tax exemptions, letting companies keep 100% of intellectual property rights and more research grants to for-profit companies for applied research in Turkey may prove to be a powerful incentive for foreign companies. The GOT hopes to attract foreign high-tech companies to Turkey and, for some, these incentives will be very attractive. However, one of the major complaints of foreign companies operating in Turkey is the onerous and difficult system of obtaining work permits for foreign workers, even for highly paid essential technical experts. This restriction will greatly reduce the attractiveness of the R&D incentives to foreign companies, who generally want their own experts conducting applied research. End Comment.

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